The Navigator

Early Retirement Part 3 – Company Benefits

Early retirement is something you may strive for, if it is your decision and made voluntarily. Whether you are retiring early, starting a new job or taking time off, leaving an employer can often be an emotional time. In recent years, early retirement has become synonymous with termination, or involuntary retirement, due to corporate restructuring and downsizing.

Whether you are leaving your employment voluntarily or involuntarily, there are generally three main issues that need to be considered:1) retiring allowance planning, 2) pension plan options and 3) company benefits. Deciding what to do with options presented involves many variables and can be quite confusing. And, once you make a decision, it is often irreversible.

To assist you with your decision making, a three part series of articles will discuss the following:

Part 1: Retiring allowance planning

Part 2: Pension plan options; and,

Part 3: Company benefits options.

This article (part 3 of the series) will discuss company benefits that may be available to you when your employment with the company ends such as ancillary benefits or incentives and the option for salary continuance instead of a lump sum payment.

This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

Ancillary Benefits or Incentives

Don't overlook the importance of ancillary benefits or incentives offered by your company when you leave or when you retire. Typically, benefits range from 20-40% of payroll costs.

In some cases, your employer may only offer benefits such as continued access to group plans such as health, dental and life insurance on the condition that you remain a member of the company pension plan. This is something that you should investigate and consider carefully.

Check with your benefits representative or human resources specialist to find out the conditions and length of coverage, and if it is possible to convert to personal coverage at your own expense.

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considerations for the different types of benefits or incentives that may be available.

Medical and Dental Benefits

Some companies may continue to offer medical and dental benefits for their retirees. However, they are generally not as generous as they were when you were employed and there may be additional costs. Other companies, when offering an early retirement program, will offer these benefits only for a specified period of time.

Generally, employees who have opted to transfer their pension out from the employer will not be eligible for these types of company benefits during retirement.

When you are entitled to these benefits, make sure you are aware of what the benefits will be and evaluate whether or not you will need to enhance your coverage to suit your lifestyle. For example, will you have out-of country coverage from your previous employer if you travel outside the country?

Should you find yourself without benefits after leaving your employer, you could arrange personal coverage through another provider to maintain the protection. This can be a cost effective decision in the long run, as medical or dental bills can be substantial.

Life Insurance

One area that is usually of concern to many employees is the issue of life insurance. Upon leaving a group plan, you may be eligible to convert your group coverage to private coverage within a specified time frame provided by the insurer. The benefit of this option is that the conversion may be done without a medical exam; however, the premiums charged will likely be greater than those paid as an employee. Individuals in good health may opt to have a medical examination and get private coverage instead of converting their group insurance. You should compare the cost of private coverage to the cost of the converted group coverage to determine which is most beneficial (assuming that the same types of coverage are being compared). It is also important at this point to assess just how much life insurance coverage you actually require. All of these issues can be discussed with a life insurance licensed representative.

Third Party Services

Some employers will offer terminated employees counseling, resume writing or job placement services through third-party providers. These services are designed to help terminated employees attain re-employment sooner.

Corporate Vouchers or Discounts

Occasionally, companies will give terminated employees vouchers that may be used to purchase company products or services. These kinds of benefits are taxable and are usually reported by the company on a tax slip when the voucher is used.

Instead of vouchers, discounts are sometimes offered to retirees for company products and services and are generally not a taxable benefit although they usually have an expiration date.

Salary Continuance

Instead of receiving a lump-sum severance payment or retiring

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allowance, your employer may offer you the option to receive a salary continuance. With salary continuance, your salary will continue for a set period of time or until an event such as finding new employment occurs. You may find the prospect of continuing to receive a salary appealing.

Salary continuance may be preferable to receiving a lump-sum amount if you are not comfortable managing a lump-sum of money. In many cases, company benefits such as drug, dental, life insurance and pension service will continue during salary continuance. However, these benefits may possibly not continue if a lump sum cash payment is chosen.

Salary continuance provides cash flow to fund ongoing expenses and only amounts actually paid in the year are subject to taxation. This can result in lower tax rates due to the graduated tax rate system and a deferral of tax over a longer period of time.

Note that while tax deferral is an important issue, it should not be your only concern. Flexibility of the payment option should also be considered. It may be possible to receive a lump sum payment that can be used to fund expenses and/or if you have debt it may allow you to pay if off sooner. You may also be able to achieve tax deferral where the lump sum payment is considered an eligible retiring allowance or there is sufficient RRSP contribution room. Retiring allowances are discussed in a separate article. Ask your RBC advisor for a copy.

You may prefer to receive a lump sum payment to ensure that you receive all the money you are entitled to. If there is a risk that the company you are leaving is in financial difficulty, it may be advisable to receive your whole payment now.

Your employer will usually treat salary continuance as regular employment income (reported on a T4 slip), and therefore it will not be considered as a retiring allowance.

Another consideration is that salary continuance reported on a T4 slip will be considered as earned income for purposes of creating new RRSP contribution room for the following year. Conversely, a retiring allowance reported on a T4 slip is not considered earned income and therefore no new RRSP contribution room will be created.

Sifting Through "The Package"

This article ends the three-part series of articles with these final thoughts. Careful planning can go a long way to ease the transition from employment to retirement. Take the necessary time to understand your options (retiring allowance, pension plan and company benefits) for your retirement. Take into consideration your cashflow needs (immediate and long-term). Remember to maintain your flexibility since circumstances are always changing. You want to ensure that you can take advantage of any opportunities that may arise. Your RBC advisor can assist you in addressing many of these issues.

Please contact us for more information about the topics discussed in this article.

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